

## Message Text

CONFIDENTIAL

PAGE 01 ROME 07788 061910Z

46

ACTION EUR-10

INFO OCT-01 SS-14 ISO-00 EURE-00 NSC-07 NSCE-00 TRSE-00

EB-03 FRB-01 L-02 STR-01 SP-02 OMB-01 CIEP-01 CEA-01

EA-13 PRS-01 SAJ-01 SAM-01 DRC-01 /061 W

----- 055075

P R 061405Z JUN 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 5210

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

USMISSION OECD PARIS

AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 7788

LIMDIS

PASS TREASURY FOR WIDMAN/TEMPLEMAN

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: ITALY'S ECONOMIC PROBELMS-BALANCE OF PAYMENTS

1. DURING CURRENT DELIBERATIONS PREPARATORY TO C-20 MONETARY MEETING, IT IS IMPORTANT THAT WE GIVE CAREFUL CONSIDDERATION TO THE EXTREMELY DIFFICULT SITUATION GOI IS EXPERIENCING IN FINANCING ITS BALANCE OF PAYMENTS DEFICIT. WE ARE CONCERNED THAT, UNLESS ITALIANS RECEIVE ASSISTANCE BOTH FROM THEIR ALLIES AND THEIR COMMUNITY PARTNERS IN CONFRONTING THIS PROBLEM, THEY WILL BELIEVE THEMSELVES COMPELLED TO TAKE UNILATERAL MEASURES AND EITHER ADOPT ADDITIONAL  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ROME 07788 061910Z

RESTRICTIONS ON CURRENT ACCOUNT TRANSACTIONS OR DEVALUE THE LIRA

BY CEASING SUPPORT OPERATIONS IN EXCHANGE MARKETS. NEEDLESS TO SAY, THIS WOULD HAVE UNWELCOME REPERCUSSIONS ON INTERNATIONAL MONETARY AND TRADE SYSTEM.

2. IF THE SITUATION CONTINUES TO DETERIORATE, THIS COULD RESULT IN A SEVERE POLITICAL SETBACK FOR PRESENT GOVERNMENT AND POSSIBLY THREATEN THE VIABILITY OF ITALY'S TRADITIONAL DEMOCRATIC CENTER-LEFT.

3. THE MAGNITUDE OF ITALY'S ECONOMIC PROBLEM IS READILY EVIDENT. THE TRADE ACCOUNT DEFICIT FOR THE FIRST FOUR MONTHS IS ABOUT \$4.4 BILLION. PRELIMINARY MONETARY MOVEMENTS DATA FROM JANUARY 1 THROUGH MAY 15 SHOW RESERVE LOSSES OF \$5 BILLION (INCLUDING COMPENSATORY EUROMARKET BORROWINGS). DOMESTIC INFLATION IS CONTINUING UNABATED WITH COST-OF-LIVING INDEX AT 16 PERCENT.

4. GOI HAS ATTEMPTED TO PUT ITS HOUSE IN ORDER THROUGH MONETARY POLICY MEASURES AND IMPOSITION OF AN IMPORT DEPOSIT SCHEME. POSSIBLE TAX INCREASES ARE PRESENTLY BEING DISCUSSED AS AN ADDITIONAL MEANS TO CONTAIN INTERNAL DEMAND AND REDUCE INFLATION. ITALY HAS BORROWED EXTENSIVELY ON EUROMARKET AND HAS MADE USE OF ITS CREDIT LINES WITH ITS EC PARTNERS. HOWEVER, THESE ACTIONS HAVE NOT BEEN SUFFICIENT AND ITALY'S POLICY MAKERS ARE CONTINUING TO SEEK OTHER SOURCES OF FINANCING THE BALANCE OF PAYMENTS DEFICIT. IN BOTH INTERNATIONAL AND EUROPEAN MONETARY DISCUSSIONS, ITALIAN REPS ARE ACTIVELY SEEKING A SOLUTION TO THE GOLD QUESTION WHICH WOULD PERMIT UTILIZATION OF GOLD STOCKS AT A MARKET-RELATED PRICE BY CENTRAL BANKS TO SETTLE BALANCE OF PAYMENTS SURPLUSES AND DEFICITS

THEY HAVE ALSO SHOWN A GREAT DEAL OF INTEREST IN INTERNATIONAL DISCUSSIONS CONCERNING RECYCLING OIL FUNDS FROM BALANCE OF PAYMENTS DEFICIT OIL-IMPORTING COUNTRIES

5. GIVEN ITALY'S FINANCING PROBLEM AND THE IMPLICATIONS OF FAILURE TO RESOLVE THIS PROBLEM, IT IS EXTREMELY IMPORTANT THAT THE US MAKE A STRONG EFFORT TO ASSIST ITALY IN A MULTILATERAL CONTEXT. THE POLITICAL LEADERSHIP LOOKS TO US FOR HELP AND IF WE SEEM TO BE UNWILLING OR UNRESPONSIVE THE DC'S CONFIDENCE IN ITS ABILITY TO GOVERN COULD BE ERODED FURTHER.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ROME 07788 061910Z

6. IT SEEMS REASONABLE THAT, IN EXCHANGE FOR SUCH ASSISTANCE, GOI BE REQUESTED TO UNDERTAKE CERTAIN INTERNAL STABILIZATION MEASURES, SUCH AS EXERCISING GREATER CONTROL OF PUBLIC EXPENDITURES AND INCREASING TAXES. THERE IS SOME EVIDENCE THAT THE DC PARTY IS ALREADY THINKING IN THESE TERMS AND IT MAY MAKE IT EASIER FOR THE GOVERNMENT TO IMPOSE HIGHER TAXES OR TAKE OTHER SIMILAR UNPALATABLE STEPS--IN KEEPING WITH THE "CARLI CURE"--WHICH ARE NECESSARY COMPLEMENTS TO EXTERNAL ASSISTANCE. BEAUDRY

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, INFLATION, BALANCE OF PAYMENTS DEFICITS, BALANCE OF PAYMENTS SURPLUS, FOREIGN EXCHANGE, DEVALUATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 06 JUN 1974  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974ROME07788  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D740145-1117  
**From:** ROME  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740669/aaaachee.tel  
**Line Count:** 115  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 02 APR 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <02 APR 2002 by izenbei0>; APPROVED <13 JUN 2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ITALY'S ECONOMIC PROBELMS-BALANCE OF PAYMENTS  
**TAGS:** EFIN, IT, US  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005